

**TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL**

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 0 1 6

2. STATE:

Oklahoma

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL  
SECURITY ACT (MEDICAID)TO: REGIONAL ADMINISTRATOR  
HEALTH CARE FINANCING ADMINISTRATION  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

09-01-00

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 CFR 442

7. FEDERAL BUDGET IMPACT:

a. FFY 2000 \$ 4,920,228

b. FFY 2001 \$ 103,654,532

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-D Pages 1 through 54, replaced

See Attached

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION  
OR ATTACHMENT (If Applicable):

Attachment 4.19-D Pages 1 through 3

See Attached

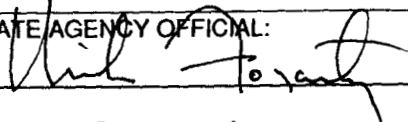
10. SUBJECT OF AMENDMENT:

Adjustments/Amendments to clean up State Plan Section 4.19-D and to implement  
provisions of HB 2019, setting up the "Quality of Care" Assessment Fund and  
Requirements

11. GOVERNOR'S REVIEW (Check One):

☒ GOVERNOR'S OFFICE REPORTED NO COMMENT☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL☐ OTHER, AS SPECIFIED:

12. SIGNATURE OF STATE AGENCY OFFICIAL:



13. TYPED NAME:

Michael Fogarty

14. TITLE:

Chief Executive Officer

15. DATE SUBMITTED:

09/28/00

16. RETURN TO:

Oklahoma Health Care Authority  
Attn: Billie Wright  
4545 N. Lincoln, Suite 124  
Oklahoma City, Oklahoma 73105

## FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

September 29, 2000

18. DATE APPROVED:

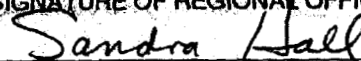
June 6, 2001

## PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

September 1, 2000

20. SIGNATURE OF REGIONAL OFFICIAL:



21. TYPED NAME:

for Calvin G. Cline

22. TITLE:

Associate Regional Administrator  
Division of Medicaid and State Operations

23. REMARKS:

c: Michael Fogarty  
Charles Brodt  
Jim Hancock  
Billie Wright

## METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

### STANDARD NURSING FACILITY SERVING ADULTS

A statewide prospective rate of payment shall be determined annually for Oklahoma nursing facilities serving adults ("NFs"). The rate will be determined pursuant to these methods and standards and approved by the Oklahoma Health Care Authority Board in advance of the rate period.

The rate will be established based on analyses of cost reports and other relevant cost information, the use of national and, where appropriate, Oklahoma-specific trends in costs, including trends in salary levels and changes in minimum wage levels, analyses of the economic impact of changes in law or regulations, and discussions with recognized representatives of the nursing home industry.

The rate is at, or above, the level that the Oklahoma Health Care Authority (OHCA) finds reasonable and adequate to reimburse the costs that must be incurred by economically and efficiently operated facilities to the extent specified by 42 U.S.C. Section 1396a(a)(13)(A).

#### A. COST ANALYSES

The Oklahoma Health Care Authority (OHCA) is principally responsible for implementing the Medicaid program in Oklahoma. OHCA staff will prepare necessary analyses to support the rate determination process, as described below.

##### 1. UNIFORM COST REPORTS

Each Medicaid-participating nursing facility must submit, on uniform cost reports designed by the Authority, cost and related statistical information necessary for rate determination.

- a. **Reporting Period.** Each nursing facility must prepare the cost report to reflect the allowable costs of services provided during the immediately preceding fiscal year ending June 30. Where the ownership or operation is commenced, a fractional year report is required, covering each period of time the NF was in operation during the year.
- b. **Report Deadline.** The report must be filed by September 1 of each year. Extensions of not more than 30 days may be granted on a showing of just cause.

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- c. **Accounting Principles.** The report must be prepared on the basis of generally accepted accounting principles and the accrual basis of accounting, except as otherwise specified in the cost report instructions.
- d. **Signature.** The cost report shall be signed by an owner, partner or corporate officer of the NF, by an officer of the company that manages the NF, and by the person who prepared the report.
- e. **Audits of Cost Reports.** The Authority will conduct a desk review to verify the completeness and mathematical accuracy of all totals and extensions in each cost report. Census information may be independently verified through other OHCA sources. In addition, a sample number of cost reports will be audited independently by an auditor retained by OHCA. Any NF that is subject to an audit is required to make its records available to OHCA and to any auditor engaged by OHCA.

### 2. ALLOWABLE AND UNALLOWABLE COSTS

Only "allowable costs" may be included in the cost reports. (Costs should be net of any offsets or credits.) Allowable costs include all items of Medicaid-covered expense that NFs incur in the provision of routine (i.e., non-ancillary) services. "Routine services include, but are not limited to, regular room, dietary and nursing services, minor medical and surgical supplies, over-the-counter medications, transportation, and the use and maintenance of equipment and facilities essential to the provision of routine care. Allowable costs must be considered reasonable, necessary and proper, and shall include only those costs that are considered allowable for Medicare purposes and that are consistent with federal Medicaid requirements. (The guidelines for allowable costs in the Medicare program are set forth in the Medicare Provider Reimbursement Manual ("PRM"), HCFA-Pub. 15.) Ancillary items reimbursed outside the NF rate should not be included in the NF cost report and are not allowable costs. Quality of Care assessment fees are allowable costs for reporting purposes.

### COMPUTATION OF THE STATEWIDE FACILITY BASE RATE

Cost reports used to calculate the rate were those filed for the year ended June 30, 1999. ("base year"). A state plan will be submitted when costs

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are rebased. A description of the calculation of the base per diem rates for the periods beginning September 01, 2000, October 01, 2000, and December 01, 2000 are as follows:

## A. Primary Operating Costs

1. Determine the weighted mean primary operating per diem by summing all reported primary operating expenses of all nursing facilities serving adults (excluding facilities serving only AIDS patients) and dividing by total period patient days. Primary operating costs consists of all non-capital costs excluding administrative services, which are described on page 4.
2. Determine the audit adjustment per diem to be extrapolated to all reporting facilities based on desk reviews and independent sample audit findings. The audit adjustment is based on an average of the difference between reported and audited cost reports for field audited facilities. If no audit file is available, an average audit adjustment will be determined from the average audit adjustments from the previous 5 years available.
3. Determine the adjusted primary operating per diem by subtracting the audit adjustment per diem (step 2) from the weighted mean primary operating costs per diem determined in step 1.
4. Trend forward the adjusted primary operating per diem from the midpoint of the base year to the midpoint of the rate period state fiscal year using the inflation update factors. The Authority will use the update factors published in the Data Resources, Inc., ("DRI") nursing home without capital market basket index for the fourth calendar quarter of the previous fiscal year.

For example, for the rates effective July 1, 1997, the Authority used the update factors for the fourth quarter of calendar year 1996.

## B. Administrative Services

An imputed administrative services allowance will be used in lieu of actual owner/administrator salary and non-salary compensation. The imputed administrative services allowance is the state-established limit or value for the purposes of calculating the reimbursement rate.

The base allowance is determined as follows:

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1. Determine the weighted mean per diem administrative services cost (less the owners non-salary compensation) for the regular nursing facilities from the base year cost reports.
2. Trend forward the allowance per diem determined in 1 from the midpoint of the base year to the midpoint of the rate period state fiscal year using the inflation update factors as in 3.A.4 on page 3.

## C. Capital

An imputed allowance will be used in lieu of actual depreciation, interest, and lease related to facilities and equipment. The imputed allowance is determined by dividing the total reported costs (from the base year cost reports) for the regular nursing facilities, plus that for the regular nursing facilities serving aids patients, plus that for the private standard intermediate care facilities for the mentally retarded plus that for the private specialized (16 bed or less) M/R facilities by the total "adjusted days" for those facilities. The "adjusted" days are determined by multiplying the allowable days from the base year cost report by a factor of .93 (i.e. adjust to a 93% occupancy level). To account for inflation this imputed capital allowance will be trended forward to the rate period state fiscal year by the Marshall-Swift replacement cost multipliers for facilities with Class C construction (District Comparative Cost Multipliers, Central Region) published in the January index of the year preceding the rate change period.

## D. Adjustment For Change In Law Or Regulation

The Authority also considers possible effects on rate year costs compared to base year costs that might not be fully accounted for by the DRI index described above. Inasmuch as the index is an estimate of actual and forecasted national rates of change in the price of nursing home goods and services, DRI is not specific to any state. Thus during a given period, it might not sufficiently account for the economic effects of changes in federal laws or regulations which have a disparate impact on Oklahoma, or of changes in state laws, rules or circumstances that only affect Oklahoma.

The following circumstances may cause an adjustment to rate year costs: additional costs incurred to meet new requirements imposed by government regulatory agencies, taxation, authorities, or applicable

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law (e.g., minimum staffing requirements, social security taxation of 501(c) (3) corporations, minimum wage change, etc.) and implementation of federal or state court orders and settlement agreements.

OHCA will evaluate available financial or statistical information, including data submitted on cost reports and special surveys to calculate any base rate adjustment. These adjustments will become permanent until such time a state plan amendment is submitted to rebase the rates.

Per HB 2019, the Oklahoma 2001 Health Care initiative, the following adjustments will be made.

1. For the rate period beginning September 1, 2000 the OHCA has calculated an Oklahoma Specific additional cost of expected increase in Liability insurance rates. The rate will be adjusted by an additional \$.51 for the expected cost. The amount of additional cost was determined from a sample of nursing facility invoices from the 1999 and 2000 fiscal years and from data from the base year cost reports. The total sample costs for 1999 were compared to the total sample costs for 2000 to get an overall percent of increase. Total available days from the base year cost report was divided by 365 to estimate the number of beds which in turn was multiplied by an estimated annual cost of \$100 per bed (per industry survey) to get an annual estimate for the rate year period. The resulting cost was divided by the total patient days from the base year cost reports and multiplied by the percent increase from above to determine the added cost per day.

This add-on will be trended forward by the same method as in 3.A.4 on page 3.

2. For the rate period beginning September 1, 2000 the OHCA has calculated the additional cost of new direct care staffing requirements. These new requirements are to maintain staff-to-patient ratios of 1:8, 1:12 and 1:17 for the three 8 hour shifts for day, evening and night, usually beginning at 8:00 a.m., 4:00 p.m. and 12:00 a.m., respectively. The rate will be adjusted for the cost of maintaining a level of staffing that is at 86.5% of the base year level above the minimum requirement.

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This adjustment is calculated as follows:

1. Determine the direct care hours per day from the base year cost report data for all private facility types.
2. Determine the direct care cost per day (including benefits) of the hours determined in 1 from the base year cost reports.
3. Adjust the hours per day for the effect of the minimum wage requirement of HB 2019 by multiplying the factor determined in 2 by the percent of the cost of the minimum wage increase to the total salaries and benefits in the base period.
4. Determine the amount of hours per day in the base period that actual direct care hours exceeds the minimum requirement.
5. Apply a factor of .865 (86.5%) to the amount determined in 4. This is the estimated amount that the facilities will remain above the minimum required hours.
6. Add the amount determined in 5 to the amount of new required minimum hours per day to get the expected level of hours per day for the rate period. Divide the expected level of hours by the level of hours in the base year to get a percent increase.
7. The cost per day is determined by multiplying the percent in 6 by the cost in 3 to get the add-on. For the period beginning 09-01-00 this amount is \$2.22.

The direct care staff-to-patient ratios required and the employees to be included in the ratios are defined in Section 1-1925.2 of Title 63 of the Oklahoma Statutes. In general, direct care staff includes any nursing or therapy staff providing hands-on care. Prior to Sept. 1, 2002 Activity and Social Work staff not providing hands-on care are allowable. On Sept. 1, 2002 Activity and Social Work staff not providing hands-on care shall not be included in the direct care staff-to-patient ratios. The direct care staff-to-patient ratios will be monitored by the Authority through required monthly Quality of Care Reports. These reports and rules may be found in the Oklahoma Administrative Code at OAC 317:30-5-131.2. This section of the Code also includes rules for penalties for non-timely filing and the methods of collection of such penalties. Non compliance with the required staff-to-patient ratios will be forwarded to the Oklahoma State Department of Health who in turn under Title 63 Section 1-1912 through 1-1917 of the Oklahoma Statutes (and through the Oklahoma Administrative Act

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Code at 310:675) will determine "willful" non-compliance. The Health Department will inform the Authority as to any penalties to collect by methods noted in OAC 317:30-5-131.2. This add-on will be trended forward by the same method as in 3.A.4 on page 3.

3. HB 2019 requires that all licensed nursing facilities pay a statewide average per patient day Quality of Care assessment fee based on 6% of the average gross revenue per patient day. An estimate of the Calendar 1999 surveys reporting this data was used to set the rate for the period beginning September 1, 2000. This estimate and rate adjustment will be \$4.00 per day. The estimate was determined by multiplying the SFY 1999 rate for regular nursing homes by 6% (.06 x \$66.75). The OHCA was also directed to collect the assessment, assess penalties for late payment and deposit the assessments into a "Quality of Care Fund" and make payments from said fund for the purposes listed in the Bill. The actual rate for the period beginning 09-01-00 will be determined from calendar 1999 surveys at a later date. When received, an adjusted rate will be established that reimburses the facilities for the estimated actual costs to be incurred during the rate period state fiscal year. Gross revenues are defined as Gross Receipts (i.e. total cash receipts less donations and contributions). For subsequent state fiscal years the per day assessment fee will be determined in advance from the totals of the monthly Quality of Care Reports, Section C, for the 6 month period from October 1 through March 31 of the prior fiscal year, annualizing those figures and determining the fee by dividing the total revenues by the total days and taking that result and multiplying by .06 (6%).

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4. For the rate period beginning October 1, 2000 an adjustment of \$3.00 per day will be added to the rate for the estimated cost of a minimum wage for specified salaries as mandated by HB 2019. The minimum wage will be \$6.65 per day for the following specified positions: Registered nurse, Licensed practical nurse, Nurse aides, Certified medication aides, Dietary staff, Housekeeping staff, Maintenance staff, Laundry staff, Social service staff, and other activities staff. The OHCA will monitor this requirement and assess penalties as discussed in 2 above.

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The adjustment is determined as follows:

1. Determine the number of hours reported on the base year (SFY 1999) cost reports for those employee classes at an average salary of less than \$7.00 per hour.
2. Determine the number of hours reported on the base year cost reports for those classes at an average salary of \$7.00 to \$10.00 per hour.
3. Determine the period add-on for benefits by dividing the base year cost report total benefits by total salaries.
4. Determine the direct effect class add-on by multiplying 20% of the hours determined in 1 by the rate of increase in the minimum wage (including benefits which means the rate of increase plus the percent add-on determined in 3).
5. Determine the ripple effect class add-on by adding the hours in 1 and 2 and subtracting the hours determined in 4. Thirty-five percent (.35) of this total is multiplied by the rate of increase in the minimum wage plus benefits (see 4 above).
6. Determine the total add-on by totaling the results in 4 and 5.

This add-on will be trended forward by the same method as in 3.A.4 on page 3.

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5. For the rate period beginning December 1, 2000 the provider assessment fee set at September 1, 2000 will be adjusted to compensate for the actual fee determined by the surveys of data received. The rate adjustment needed for this increased cost is \$1.29. Surveys were sent to the nursing facilities collecting revenue and patient day data for calendar 1999. Per HB2019 this data was to be used to set provider fee assessment rates for the different facility types. The assessment fee for the period beginning 09-01-00 was set at \$4.90. This adjustment is needed for the remainder of the state fiscal year to appropriately reflect the actual costs and adjust for the estimated assessment reimbursement portion of the rate set at 09-01-00 (see D.3 above). The adjustment needed was determined by multiplying the difference between the estimated assessment in the rates at 09-01 and the actual assessments from the surveys by the total months that a difference occurred and dividing this total by the estimated days remaining in the rate period. After the initial rate period these adjustments will be amended to an annual basis.

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7. For the rate period beginning December 1, 2000 the OHCA has added \$3.11 to the rate to cover the cost of staffing requirements of HB 2019 not covered in the rate change in 2 above. OHCA adjusted the rate by an additional \$3.11 to cover the cost of maintaining the same level above the minimum requirements as in previous reporting periods and to adjust for the loss of the "Major Fraction Thereof" provision in determining compliance. The adjustment is determined as follows:

1. The additional hours needed to cover the loss of the "major fraction thereof" provision in meeting the minimum staffing requirements was determined by arraying the required hours for levels of patients from 60 to 99 under the new staffing requirements with the provision and without the provision. The average percent change in required hours was determined.
2. The percent in 1 above was increased by another 25 percent to account for the loss of the three months (from 09-01-00) that this loss was not included in the rate adjustments (3 months divided by 12 months equals .25).
3. The percent calculated in 2 above was added to 100% to also cover the level of staffing over the minimum that occurred in the base year. This percent was used in the method in D.2 above to calculate the per day amount required to fund both the loss of the "major fraction thereof" and funding at the same level above the minimum requirement that occurred in the base year.
4. The add-on at 09-01-00, calculated in D.2 above was subtracted from the per day amount determined in 3 above to determine the add-on required for 12-01-00.

This add-on will be trended forward by the same method as in 3.A.4 on page 3.

## E. Statewide Base Rate

The statewide facility base rate is the sum of the primary operating per diem, the administrative services per diem, the capital per diem and the adjustments for changes in law or regulation less the enhancement in 4 below.

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### 4. Enhancements

The Authority may further adjust the statewide facility base rate to include estimates of the cost of enhancements in services that are not otherwise required by law but which the Authority wishes to recommend as the basis for inclusion in the NF rates.

Effective May 1, 1997 the State will pay an interim adjustment of \$3.15 per diem for specified staff to facilities who have elected to participate in the wage enhancement program.

Allowable costs include the salaries and fringe benefits for the following classifications: licensed practical nurses (LPNs), nurse aides (NAs), certified medication aides (CMAs), social service director (SSDs), other social service staff (OSSS), activities directors (ADs), other activities staff (OAS), and therapy aid assistants (TAA). These classifications do not include contract staff.

A settlement will be made based on the variance in the amount of enhanced payments and the amount expended for wages and benefits paid for the specified staff. The settlement will be capped at \$3.15 per day.

Facility-specific target rates were determined for each provider. Fiscal year 1995 costs were used to set the rates. The target rates were calculated as follows:

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1. The reported salaries and wages for the specified staff were summed for each facility (specified staff salaries).
2. An employee benefits ratio was determined by dividing total facility benefits by total facility salaries and wages.
3. Total specified staff salaries were multiplied by the employee benefits ratio calculated in 2 above, to determine allowable employee benefits.
4. Specified staff salaries and allowable employee benefits were summed and divided by total facility patient days to arrive at the base year allowable cost per diem.
5. The base year allowable cost per diem for each facility was trended forward by factors of 2.9 percent and 3.1 percent.
6. An adjustment of \$3.15 per day was added to the trended base year costs to arrive at the target rate for each facility.

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7. For facilities demonstrating compliance for two consecutive quarters as of June 30, 2000, the reporting requirement is waived. Facilities not in compliance or not participating at July 1, 2000 may not participate in the program and may not receive the enhanced rate adjustment of \$3.15. New facilities and facilities under new ownership may participate in the wage enhancement program and will be subject to the compliance requirements of the program.

### 5. SPECIALIZED SERVICES

Payment will be made for non-routine nursing facility services identified in an individual treatment plan prepared by the State MR Authority. Services are limited to individuals approved for NF and specialized services as the result of a PASSR/MR Level II screen. The per diem add-on is calculated as the difference in the statewide standard private MR base rate described on Attachment 4.19-D page 39 and the statewide NF facility base rate in Section 3 E above.

### 6. COSTS OF COMPLIANCE WITH OMNIBUS BUDGET RECONCILIATION ACT (OBRA) OF 1987

All of the costs of compliance appear in provider cost reports used to develop rates. Therefore, no further adjustment or add-on is required.

### 7. RATE ADJUSTMENTS BETWEEN REBASING PERIODS

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- A. Beginning January 1, 2000 the rates will be adjusted annually on January 1, in an amount equal to the estimated savings or loss to the program as a result of the automatic cost of living adjustment on Social Security benefits as published in the Federal Register and the resulting effect to the spenddown required of the recipients. The rate adjustment will be determined as follows: the most recent calendar year (CY) total spenddown for Medicaid clients determined from the MMIS (Medicaid Management Information System) will be adjusted to the rate period (CY) by the Social Security Cost of Living increases as published in the Federal Register. The resulting spenddown estimate will be divided by the most recent available SFY total Medicaid days from the MMIS to determine the rate adjustment.

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## METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES FOR NURSING FACILITIES

### **STANDARD NURSING FACILITY SERVING AIDS PATIENTS**

A statewide prospective rate of payment shall be determined annually for Oklahoma nursing facilities serving AIDS patients. The rate will be determined pursuant to these methods and standards and approved by the Oklahoma Health Care Authority Board in advance of the rate period.

The rate will be established based on analyses of cost reports and other relevant cost information, the use of national and, where appropriate, Oklahoma-specific trends in costs, including trends in salary levels and changes in minimum wage levels, analyses of the economic impact of changes in law or regulations, and discussions with recognized representatives of the nursing home industry.

The rate is at, or above, the level that the Oklahoma Health Care Authority (OHCA) finds reasonable and adequate to reimburse the costs that must be incurred by economically and efficiently operated facilities to the extent specified by 42 U.S.C. Section 1396a(a)(13)(A).

#### **A. COST ANALYSES**

The Oklahoma Health Care Authority (OHCA) is principally responsible for implementing the Medicaid program in Oklahoma. OHCA staff will prepare necessary analyses to support the rate determination process, as described below.

#### **1. UNIFORM COST REPORTS**

Each Medicaid-participating nursing facility must submit, on uniform cost reports designed by the Authority, cost and related statistical information necessary for rate determination.

- a. **Reporting Period.** Each nursing facility must prepare the cost report to reflect the allowable costs of services provided during the immediately preceding fiscal year ending June 30. Where the ownership or operation is commenced, a fractional year report is required, covering each period of time the NF was in operation during the year.

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| STATE <u>Oklahoma</u>        |  |
| DATE REC'D <u>09-29-2000</u> |  |
| DATE APP'D <u>06-06-2001</u> |  |
| DATE EFF <u>09-01-2000</u>   |  |
| HCFA 179 <u>OK-00-16</u>     |  |

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